



Quadrant 4 Systems Corporation
(OTCQB: QFOR)

Healthcare Exchange (qHIX), Media (qBLITZ), Poised to Grow Revenue Significantly in FY15

November 17, 2014
Target Price: \$4.60
Recent Price: \$0.50

Market Data

Fiscal Year	December 31
Industry	IT Services
Market Cap	\$49.6M
Price/Earnings (ttm)	N/A
Price/Book (mrq)	3.3x
Price/Sales (ttm)	1.2x
EV/EBITDA (ttm)	10.3x
Insider Ownership	9.1%
Institutional Ownership	13.8%
Shares Outstanding	99.2M
Float	78.9M
Avg. Daily Vol. (3 mos.)	113,949
As of November 17, 2014	

Income Snapshot

	TTM
Revenue	\$40.2M
Gross Profit	\$10.3M
Gross Margin	25.7%

Balance Sheet Snapshot

	MRQ
Cash	\$0.3M
Debt	\$9.2M

3Q14 revenue increased 45% YoY to \$13.2 million; positive net income reported for 2nd consecutive quarter. QFOR continued to show strong revenue growth, with 3Q14 revenue up 45% YoY to a record \$13.2 million. Gross profit increased 33% YoY to \$3.5 million, EBITDA increased 89% YoY to \$1.9 million (18th consecutive quarter of positive EBITDA), and net income was \$172,100. While we are pleased to see the strong growth this quarter, we believe the biggest focus should be on QFOR's growth initiatives, particularly in the healthcare and media divisions. We believe that these divisions could drive substantial results over the next 12-24 months. The Company reiterated 2014 guidance of \$50 million in revenue and being net income positive in FY14.

We are projecting 2015 revenue of \$92.7 million (85.3% YoY increase) and net income of \$13.0 million. In FY15, the Company is poised to show extremely strong growth, particularly in the healthcare and media divisions. Management indicated on the earnings call that we should expect to see gross margin improvement as its platform-as-a-service (PaaS) offerings start making a larger contribution to overall revenue, and also indicated that the Company can handle about 2x-3x its current revenue levels with very little in incremental costs.

Projecting 2.5 million lives on its healthcare platform by YE15. QFOR continues to be very confident about its ability to grow the number of lives on its qHIX healthcare exchange platform. The Company is projecting that 2.5 million lives will be on its platform by year-end 2015. QFOR is currently implementing 5 private healthcare exchange platforms which account for over 150,000 lives, and is targeting to ultimately reach 25 private healthcare exchanges. The Company has some very large potential customers in the pipeline which are currently undergoing product trials (some with 1 million+ potential lives), and it appears QFOR could be in line to start earning substantial revenues from qHIX beginning in early to mid-2015. Management reiterated that it expects to earn \$2-\$6 in revenue for each life per month; applying the low-end of this range to management's projection of 2.5 million lives by year end 2015 would give QFOR \$60 million in annual run rate revenue from qHIX alone.

qHIX benefits administration platform designed to serve the needs of work groups with less than 50 employees. The Company's benefits administration platform is designed for small companies with under 50 employees that are not ready to implement a full healthcare exchange. We believe that this platform gives QFOR the ability to target both small and large businesses, thus increasing the Company's overall potential market.



Education group formed to serve the global education community; potential \$5 billion market opportunity for K-12 students. On November 17, QFOR announced the formation of its Education Group. This represents a potential \$5 billion market opportunity. QFOR believes it has the ability to reach about 70 million students, and initially plans on charging \$1 per student per month and \$100 per teacher per month. QFOR has had initial discussions with multiple school districts, and anticipates releasing its first product by early 2015. This has the potential to be another long-term growth driver for QFOR, along with demonstrating the Company's ability to deploy its Social, Mobile, Analytic and Cloud (SMAC) platform to create solutions for different industry verticals.

\$4.60 target price, based on projected FY15E revenue of \$92.7 million (\$0.93 revenue per share), and an EV/S multiple of 5.0x. The Company continues to show strong potential in all of its industry verticals, driven by its core proprietary SMAC (social, mobile, analytics, and cloud) technologies, and we expect revenue and cash flows to begin to ramp up significantly beginning in FY15. Considering current multiples (EV/S (ttm) – 1.5x, EV/S (fwd) – 0.8x, EV/EBITDA – 10.3x), we continue to believe that the Company is extremely undervalued and there is large upside relative to the current share price.



	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E
FY Ending December 31,															
Revenue	9,907,455	9,097,604	9,142,740	9,195,877	37,343,676	10,284,144	11,917,170	13,235,883	14,562,803	50,000,000	17,212,803	19,862,803	24,362,803	31,212,803	92,651,212
Cost of revenue	7,543,851	6,681,494	6,526,156	6,957,809	27,709,310	7,753,378	8,821,109	9,753,971	10,659,972	36,988,430	12,255,516	13,745,060	16,371,804	20,350,748	62,723,127
Gross Profit	2,363,604	2,416,110	2,616,584	2,238,068	9,634,366	2,530,766	3,096,061	3,481,912	3,902,831	13,011,570	4,957,287	6,117,743	7,990,999	10,862,055	29,928,085
Gross Margin	23.86%	26.56%	28.62%	24.34%	25.80%	24.61%	25.98%	26.31%	26.80%	26.02%	28.80%	30.80%	32.80%	34.80%	32.30%
EXPENSES															
General & Administrative expense	(1,076,519)	(1,264,312)	(1,597,638)	(1,332,900)	(5,271,369)	(1,317,066)	(1,392,828)	(1,557,970)	(1,703,848)	(5,971,712)	(1,979,472)	(2,184,908)	(2,558,094)	(3,121,280)	(9,843,755)
G&A as % of revenue	-10.87%	-13.90%	-17.47%	-14.49%	-14.12%	-12.81%	-11.69%	-11.77%	-11.70%	-11.94%	-11.50%	-11.00%	-10.50%	-10.00%	-10.62%
Amortization Expense	(1,157,072)	(1,342,605)	(1,333,267)	(2,129,817)	(5,962,761)	(1,324,794)	(1,397,461)	(1,437,395)	(1,477,395)	(5,637,045)	(1,517,395)	(1,557,395)	(1,597,395)	(1,637,395)	(6,309,580)
Forfeiture of Earn-Outs	0	0	570,000	437,313	1,007,313	0	0	0	0	0	0	0	0	0	0
Legal Judgement - Financing	0	(692,000)	0	0	(692,000)	0	0	0	0	0	0	0	0	0	0
Impairment of Intangible Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense - net	(572,976)	(638,148)	(689,547)	(670,639)	(2,571,311)	(393,212)	(282,242)	(314,447)	(230,697)	(1,220,598)	(189,447)	(194,447)	(199,447)	(204,447)	(787,788)
Derivative Gain (Loss)	57,504	57,508	(402,441)	0	(287,429)	0	0	0	0	0	0	0	0	0	0
Net Income (Loss) before Income Taxes	(385,459)	(1,463,447)	(836,309)	(1,457,975)	(4,143,191)	(504,306)	23,530	172,100	490,891	182,215	1,270,973	2,180,993	3,636,063	5,898,933	12,986,962
Income Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (Loss)	(385,459)	(1,463,447)	(836,309)	(1,457,975)	(4,143,191)	(504,306)	23,530	172,100	490,891	182,215	1,270,973	2,180,993	3,636,063	5,898,933	12,986,962
Net Income (loss) per common share															
Basic	(0.01)	(0.02)	(0.01)	(0.02)	(0.06)	(0.01)	0.00	0.00	0.00	0.00	0.01	0.02	0.04	0.06	0.13
Diluted	(0.01)	(0.02)	(0.01)	(0.02)	(0.06)	(0.01)	0.00	0.00	0.00	0.00	0.01	0.02	0.04	0.06	0.13
Weighted Common Shares Outstanding															
Basic	56,964,893	60,010,126	66,090,398	89,780,839	68,168,266	93,330,597	93,856,144	99,160,719	99,160,719	96,377,045	99,160,719	99,160,719	99,160,719	99,160,719	99,160,719
Diluted	56,964,893	60,010,126	66,090,398	89,780,839	68,168,266	93,330,597	96,772,909	103,137,119	103,137,119	99,094,436	103,137,119	103,137,119	103,137,119	103,137,119	103,137,119



Additional Information

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